MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2021/2022

BFN2224 – FINANCIAL MARKETS AND INSTITUTIONS

(All sections / Groups)

12TH AUGUST 2022
9.00 a.m – 11.00 a.m
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 3 pages (including cover page) with 3 Questions only.
2. Attempt **ALL** questions. The distribution of the marks for each question is given.
3. Please write all your answers in the answer booklet.

QUESTION 1 (50 MARKS)

The sustained reopening of the global economy and the improvement in labour market conditions continue to support the recovery of economic activity. These have partly cushioned the impact of the military conflict in Ukraine and the strict containment measures in China. Inflationary pressures have increased sharply due to a rise in commodity prices, strained supply chains and strong demand conditions, particularly in the US. Consequently, several central banks are expected to adjust their monetary policy settings at a faster pace to reduce inflationary pressures. The global growth outlook will continue to be affected by the developments surrounding the conflict in Ukraine, COVID-19, global supply chain conditions, commodity price shocks, and financial market volatility.

For the Malaysian economy, latest indicators show that growth is on a firmer footing, driven by strengthening domestic demand amid sustained export growth. The labour market is further lifted by a lower unemployment rate, higher labour participation and better income prospects. The transition to endemicity on 1 April 2022 would strengthen economic activity, in line with further easing of restrictions and the reopening of international borders. Investment activity and prospects have also improved, underpinned by the realisation of multi-year projects and positive growth outlook. However, risks to growth remain, which include a weaker-than-expected global growth, further escalation of geopolitical conflicts, worsening supply chain disruptions, and adverse developments surrounding COVID-19.

Headline inflation is projected to average between 2.2% - 3.2% in 2022. Given the improvement in economic activity amid lingering cost pressures, underlying inflation, as measured by core inflation, is expected to trend higher to average between 2.0% - 3.0% in 2022. Nevertheless, upward pressure on prices would be partly contained by existing price controls and the continued spare capacity in the economy. The inflation outlook continues to be subject to global commodity price developments, arising mainly from the ongoing military conflict in Ukraine and prolonged supply-related disruptions, as well as domestic policy measures on administered prices.

Over the course of the COVID-19 crisis, the OPR was reduced by a cumulative 125 basis points to a historic low of 1.75% to provide support to the economy. The unprecedented conditions that necessitated such actions have since abated. With the domestic growth on a firmer footing, the MPC decided to begin reducing the degree of monetary accommodation. This will be done in a measured and gradual manner, ensuring that monetary policy remains accommodative to support a sustainable economic growth in an environment of price stability.

Source: Monetary Policy Statement, Bank Negara Malaysia, 11 May 2022

The following questions are based on the article above.

Continued...

a) Describe **FOUR (4)** approaches applied by the Bank Negara Malaysia to sustain the economy recently.

(30 marks)

b) Briefly discuss the factors contributed to the high inflation that have affected the global financial market.

(20 marks)

QUESTION 2 (25 MARKS)

a) Briefly discuss why the interest rate are falling during economy depressions and rising when the economy is expanding by using supply and demand for bond framework. (10 marks)

b) In the Initial Public Offering (IPO), Tapperwory Berhad issued 4,500,000 new shares. The initial price to the public was RM17.00 per share. The final first-day closing price was RM40.

(i) If the investment bankers retained RM1.50 per share as fees, what was the net proceeds to Tapperwory Berhad? What was the market capitalization of new shares of Tapperwory Berhad? (7 marks)

(ii) Calculate the underpricing and money left on the table for Tapperworry Berhad. What does this suggest about the efficiency of the IPO process? (8 marks)

QUESTION 3 (25 MARKS)

a) Money markets provide a way to solve the cash-timing problems. How does the money market help financial institutions and corporations manage their surplus fund? (16 marks)

b) "Malaysia would be in recession if their ringgit currency continuously becoming weaker." State your argument on this statement. (9 marks)

End of Page